

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 5477

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E.O. 11652: N/A

TAGS: EFIN EG

SUBJ: CENTRAL BANK OFFICE ON EXCHANGE RATE REVISION

REF: (A) CAIRO 9544, (B) CAIRO 9557

1. CENTRAL BANK DEPUTY GOVERNOR EL BANNA TOLD EMBOFF
JULY 22 THAT GOE IS UNLIKELY TO ADOPT UNIFIED COMMERCIAL
EXCHANGE RATE URGED BY IMF BEFORE JANUARY 1, 1977, IF THEN.
EL BANNA NOTED THAT DECISION NOT TO IMPLEMENT NEW RATE IS
BASED ON NECESSITY TO ARRANGE STANDBY FUNDING FOR CENTRAL
BANK TO MAINTAIN ESTABLISHED PARITY, WHICH HE EXPECTS WILL
BE ABOUT 75 PIASTERS TO THE DOLLAR (OR LE 1 EQUALS \$1.33), AND ALSO
NEED TO STUDY A RANGE OF RELATED BANKING AND FINANCIAL QUESTIONS.
IN HIS OPINION SUM REQUIRED TO SUPPORT THIS RATE IS \$500 MILLION,
DUE TO EXPECTED EARLY RUN ON POUND AND DESIRABILITY OF CREATING
FAVORABLE PSYCHOLOGICAL ATMOSPHERE. (HE HAD NO COMMENT ON
WHERE \$500 MILLION FUND WAS TO BE OBTAINED). HE POINTED OUT
RECENT BANKING LEGISLATION(REFTEL) FREES FOREIGN
CURRENCY TRANSACTIONS TO EXTENT THAT POUND COULD EASILY
BE SUBMITTED TO HEAVY PRESSURE IF CLIMATE OF CONFIDENCE
IS NOT INSTILLED IN PUBLIC THROUGH CENTRAL BANK INTERVENTION,
AS INDICATED, IN FX MARKET. WITH THIS KIND OF SUPPORT,
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ACCORDING TO EL BANNA, EARNINGS AND REMITTANCES FROM

ABROAD FROM VARIOUS SOURCES IN REASONABLE PERIOD OF TIME WILL FINANCE CONVERTIBILITY REQUIREMENTS WITHOUT RECOURSE TO SUPPORT FUND. HE NOTED IN THIS CONNECTION IMPORTANCE OF ABOLISHING "OWN CURRENCY" IMPORT PROGRAM SO AS TO ENSURE UNIVERSALITY OF FX DEALINGS THROUGH CENTRAL BANK.

2. ON OTHER SUBJECTS, EL BANNA HAD UNUSUALLY NEGATIVE AND FRANK REMARKS TO MAKE ON CURRENT MANAGEMENT OF GOE FINANCIAL AFFAIRS, ATTRIBUTING PROBLEMS TO ABSENCE OF LEADING ROLE FOR CENTRAL BANK. THIS HAS RESULTED, HE SAID, BECAUSE OF LACK OF STRONG LEADERSHIP BY PAST AND PRESENT GOVERNORS WHICH HAS PERMITTED ACCRETION OF POWER TO MINFIN ABU ISMAIL AND MINECON SHAFEI AT EXPENSE OF BANK. HE ALSO SEEMED UNIMPRESSED WITH NEWLY- INITIALED GULF ORGANIZATION FOR DEVELOPMENT OF EGYPT, BUT CONFINED HIMSELF TO COMMENTING EXPLICITLY THAT SUCH AUTONOMOUS STRUCTURE IS NOT WHAT IS NEEDED AS FINANCIAL MANAGEMENT TOOL TO MEET EGYPT'S PRESSING PROBLEMS.
EILTS

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